



Prudential

DOCKET FILE COPY ORIGINAL

EX PARTE OR LATE FILED

James G. Turino

Vice President

Investment Banking

Prudential Securities Incorporated

One New York Plaza, 18th Floor

New York NY 10292-2018

Tel 212 778-2356 Fax 212 778-5718

RECEIVED

JAN 27 1998

FCC MAIL ROOM

January 27, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notices of Ex Parte Communication;
Broadband PCS C and F Block Installment
Payment Restructuring: WT Docket No. 97-82

Dear Ms. Salas:

On Friday, January 23, George Alex, Michael Elling and the undersigned of Prudential Securities Inc. ("Prudential") met Chairman William Kennard and Ari Fitzgerald of the Commission to discuss issues in the above-referenced proceeding. The views expressed by Prudential's representatives are included in the attached material which was distributed at the meeting.

In accordance with Section 1.1206 of the Commission's rules, an original and two copies of this filing are being submitted to you today. Please direct any questions concerning this matter to me at (212) 778-2356.

Sincerely,

Attachment

cc: w/o attach - Chairman William Kennard
Ari Fitzgerald

No. of Copies rec'd _____
List ABCDE

0

Presentation to the FCC

C-Block Reconsideration

January 23, 1998



Agenda

- I. Introduction**
- II. Why the Investment Community Has Not
Financed the C-block**
- III. Why The FCC Should Support the C-block**
- IV. Recommendations**

I. Introduction

- The C-block is viable, however financing has stalled because of continued uncertainty surrounding the restructuring of the license obligations, lack of commercially viable restructuring options, and the perception that C-block licensees irrationally overpaid.
- The FCC's original premise - to enable small businesses and entrepreneurs an opportunity to compete in the high growth wireless telecommunications industry - needs to be **reinforced**, not deserted.
- Minor modifications can make a big difference **without affecting the NPV of the winning bids or the pro forma outcome of the auction.**
- The outcome of the reconsideration is critical to the FCC in achieving its original goals: **to foster competition and permit entry by small businesses and entrepreneurs.**

- The FCC has achieved a significant portion of its C and F-Block goals already:
 - ⇒ Granted 1/3 of the PCS spectrum to small businesses and entrepreneurs
 - ⇒ Drawn over 160 designated entities into the C- and F-block auctions
 - ⇒ Drawn bids of over \$10 billion
 - ⇒ Attracted over \$1 billion from US and foreign investors
 - ⇒ Catalyzed the investment of an estimated \$500 million in build- out and infrastructure

- The FCC is within reach of fulfilling its goals on the C-block and should not reverse the progress it has made to date.

- Rational modification of the C-block license obligations will help the FCC preserve the value of the original bids which will in turn support the value of the C-block licenses.

While a significant portion of the FCC's objectives have been achieved, a number of events, both internal and external to the FCC, have done much to impede C and F-Block licensees' entry into the market:

- Fostered the perception that C-block licensees were “irresponsible” and “overpaid”
 - ⇒ \$10 billion check
 - ⇒ interest payment suspension
 - ⇒ restructuring
 - ⇒ recommending write-offs and penalties
- Delayed the grant of licenses, giving incumbents a meaningful and irrevocable competitive advantage
- Suspended interest payments and launched an ongoing restructuring of the license obligations, which have created ongoing uncertainty and have effectively “frozen” investment decisions
- Public debate over allocation of spectrum has created a glut of spectrum which has driven values down and created investor confusion

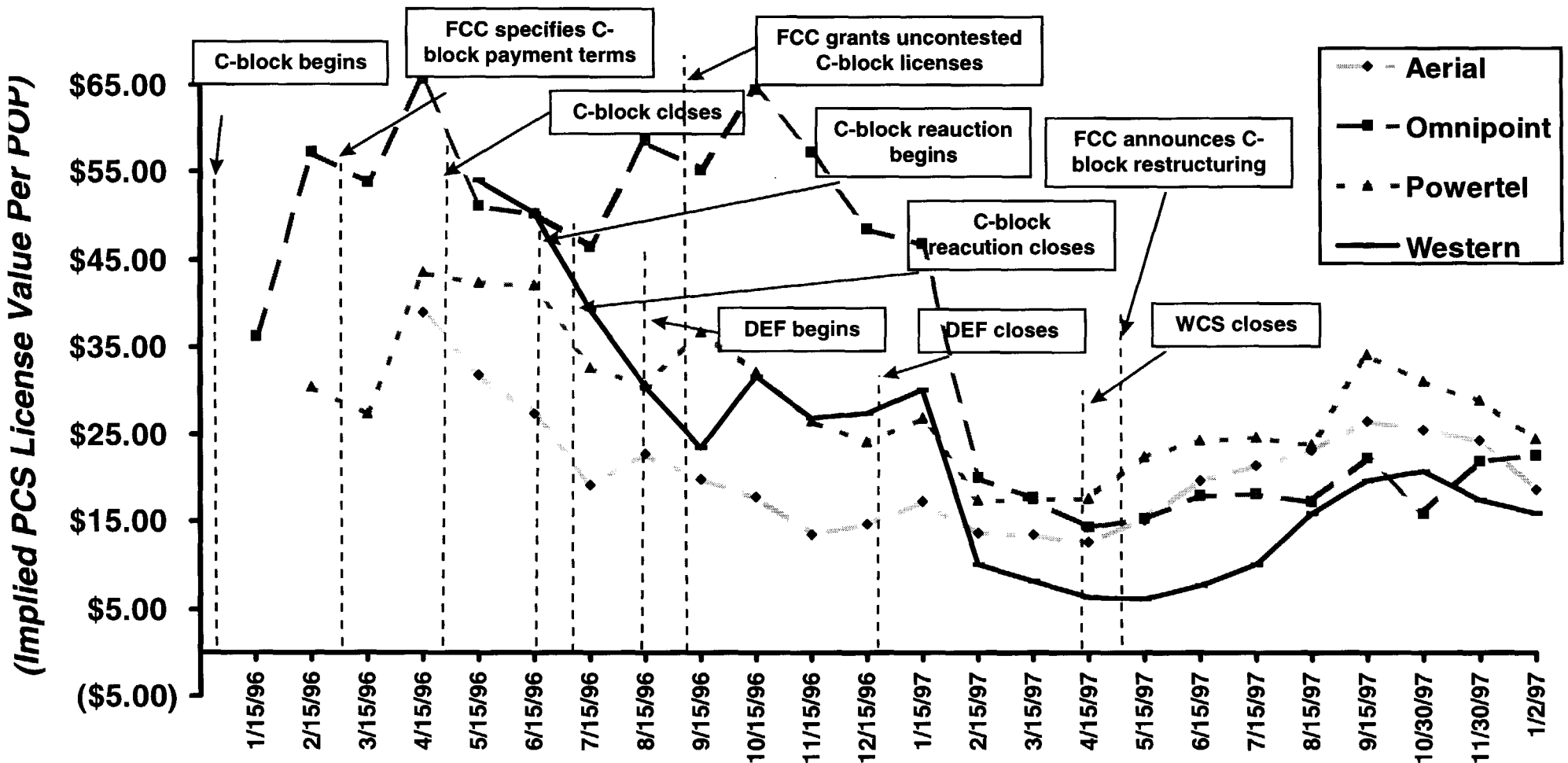
- Status Quo options currently available to the C-block will:
 - ⇒ Bolster the incumbents' first mover competitive advantage
 - ⇒ Significantly and permanently limit competitive entry into the wireless industry
 - ⇒ Cement the stigma associated with the C-block in the investment community
 - ⇒ Insure that C-block licensees remain out of the re-auction process
 - ⇒ Enable incumbents to obtain control of valuable spectrum at fire sale prices
 - ⇒ Reduce or eliminate access to PCS spectrum by the resale community

- The reconsideration points put forth herein:
- Will reinforce the FCC's original intentions of the C-block
- Will promote the financial viability of C-block licensees
- Will not affect the net present value (NPV) of the C-block assets
- Will not affect the pro forma outcome of the auction
- Do not constitute a free “giveback” by the FCC
- Summary Recommendations for the C-block Reconsideration:
 - ⇒ Capitalize interest for a period of five years
 - ⇒ Permit full use of the down payment for the disaggregation and prepayment options
 - ⇒ Apply a NPV to the prepayment option
 - ⇒ Permit C-block licensees to participate in the re-auction
 - ⇒ Allow flexible use of options on an MTA basis

Why the Investment Community Hasn't Financed the C-block

Why the Investment Community Hasn't Financed the C-block 10

● Regulatory Uncertainty

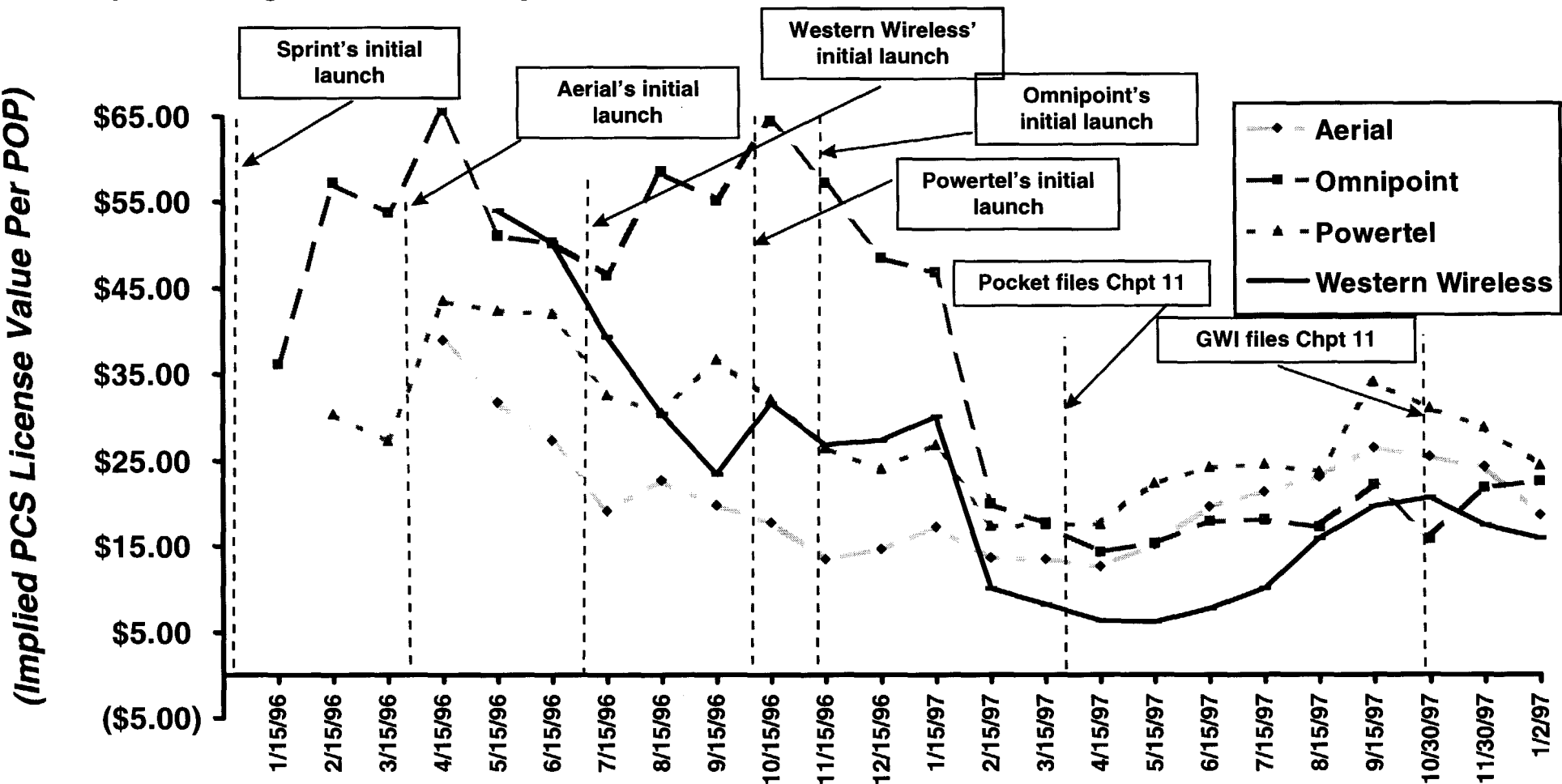


Unknown impact of FCC actions on asset values

Wait and see attitudes

Why the Investment Community Hasn't Financed the C-block 11

● Operating Uncertainty

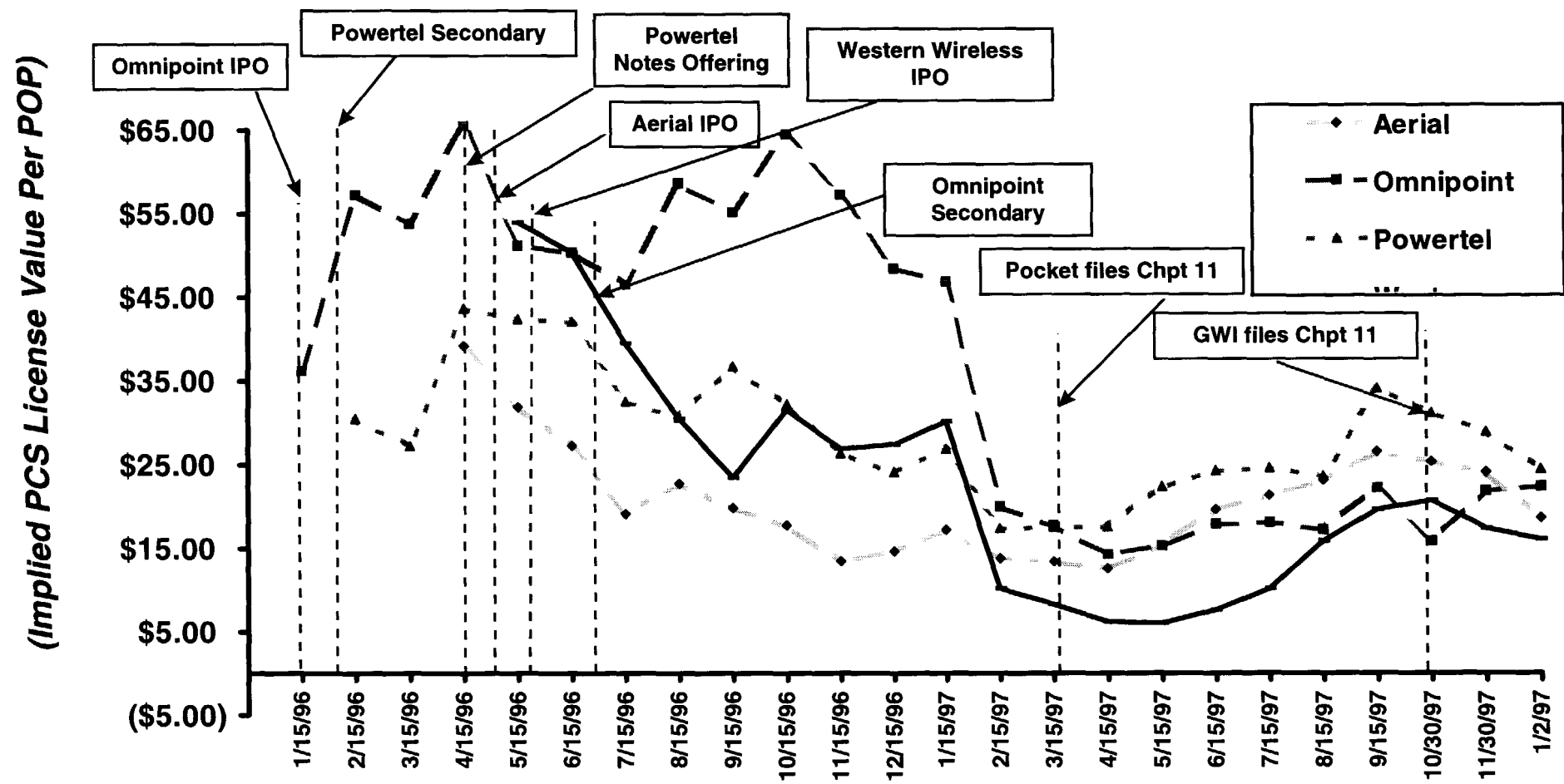


ARPU and usage patterns need to justify C-block business plans

Competitive concerns

Why the Investment Community Hasn't Financed the C-block 12

- Financial Uncertainty



Investment has virtually halted since 5/97 announcement of restructuring

III. Why the FCC Should Support the C-block

- Competition

- ⇒ Initial intention of the C-block

- ⇒ Time to Market

- Reauction would take additional time, diminish value of licenses
 - Several C-block licensees have already invested an estimated \$500 million in infrastructure

- ⇒ Wireless access is ultimately a scarce resource and small companies need a way to gain access.

- The digital wireless industry is only now beginning to show signs of operational success:
 - ⇒ Strong subscriber gains
 - 40% of gross wireless subscriber adds
 - ⇒ High and in some cases *increasing* ARPUs
 - \$60.00 to \$70.00
 - ⇒ Higher than projected usage
 - 300 to 400 minutes
 - ⇒ Decreasing per-minute costs
 - as low as \$.10 retail (Sprint PCS)
 - ⇒ The public market value of Nextel, which has increased from \$20 to \$65 per POP over the past 6 months, has demonstrated the ability of the market to react quickly in re-evaluating positive operating news

Why the FCC Should Support the C-block

16

- Permitting C-block licensees to enter the re-auction under the disaggregation and prepayment scenarios supports the original intention of the C-block and allows them to become more financeable.
 - ⇒ Fosters competition
 - ⇒ Permits licensees to average down their weighted cost per POP
 - ⇒ Enables licensees to strategically adjust footprint

- FCC needs to adopt policies to attract, rather than repel, investment
 - ⇒ Regulatory uncertainty drives investment away
 - ⇒ Perceived glut of spectrum creates uncertainty about asset values and drives investment away
 - ⇒ Give back of spectrum and resulting re-auction will add to perception of glut and drive values lower
 - ⇒ Write-offs and penalties (30% - 50% penalty, sunk capex) drive investment away
 - ⇒ Supportive policies will attract financing and enhance values paid at future auctions

IV. Recommendations

Recommendation

19

Capitalize interest for a period of five years:

IMPACT OF INTEREST DEFERRAL ON TOP 20 BTAs

Uses of Funds	Before Deferral		After Deferral	
	Per POP	Total	Per POP	Total
Infrastructure and Build Out	\$25	\$2,548,485	\$25	\$2,548,485
Working Capital and Operating Expense	10	1,019,394	10	1,019,394
License Interest	16	1,582,388	0	-
Other Interest	<u>13</u>	<u>1,274,243</u>	<u>13</u>	<u>1,274,243</u>
Total Uses of Funds	\$64	\$6,424,510	\$48	\$4,842,122
License Debt in Five Years		\$4,868,886		\$6,670,795

Deferral reduces cash funding requirements by 33% during the first five years

● Rationale

- ⇒ Reduces overall cash need to break even
- ⇒ Applies more of the proceeds to tangible assets rather than debt service
- ⇒ Mitigates financial risk associated with default on license debt
- ⇒ Enhances licensees' ability to attract vendor financing and debt and equity investments
- ⇒ Because capitalized interest is added to principal, deferment is NPV-neutral, keeps FCC whole
- ⇒ Increases successful outcome for the C-block which preserves auction value received by the FCC
- ⇒ *Quid pro quo* - accelerated build out schedule

- Permit full use of the down payment for the disaggregation and prepayment options

Impact of 100% Down Payment Recovery for Top 20 BTAs

(Dollars in thousands except per POP figures).

	Disag Option 50% of Downpmt.	Prepay Option 70% of Downpmt.	100% of Downpmt.
Uses of Funds			
Purchase Licenses	270,494	378,691	540,987
per POP	\$2.66	\$3.71	\$5.31
Penalty	270,494	162,296	0
per POP	\$2.66	\$1.59	\$0

● Rationale

- ⇒ Eliminates write-off of existing investment and associated stigma.
- ⇒ Under status quo, C-block licensees would be penalized as much as \$270 million for the top 20 BTAs, nearly as much as the actual net bids for the top-20 BTAs in the F-block (\$292 million).
- ⇒ Impact on re-auction may be relatively minor, with only 4-6 million POPs (1.5-2.5% of total) available with incremental down payment on top 20 BTAs at average bids in the original C-Block.
- ⇒ C-block bidders didn't do anything wrong, and shouldn't be penalized.
- ⇒ The incremental recovery of the down payment creates a larger equity base, and facilitates incremental debt financing of approx. \$150 - \$800 million (\$1.50 - \$8.00 / pop).

Recommendation

23

- Apply a NPV to the prepay option:

	<u>Original Auction</u>	<u>Status Quo</u>	<u>Prudential Recommendation</u>
Original net bid amount	\$100.0	\$100.0	\$100.0
Down payment	10.0	10.0	10.0
FCC financing - future value	90.0	90.0	90.0
FCC financing - net present value	57.0	57.0	57.0
Prepayment option	-	90.0	57.0
NPV of net bid amount	\$67.0	\$100.0	\$67.0

- Rationale

- ⇒ As currently put forth, the prepayment option actually increases the NPV of the C-block bids above the original auction results
- ⇒ Preserves NPV of original auction
- ⇒ Does not alter pro forma outcome of auction
- ⇒ Provides same economics to the FCC as original auction

- Permit C-block licensees to participate in the re-auction
 - ⇒ Supports original intention of C-block: to foster competition and to facilitate the entry into PCS by small businesses and entrepreneurs
 - ⇒ Enables C-block licensees an opportunity to average down their license cost / Pop
 - ⇒ Enables C-block licensees to strategically adjust footprint
 - ⇒ Does not affect NPV or pro forma outcome of original auction
 - ⇒ Creates floor and/or maximizes revenue generation
 - ⇒ Creates additional demand for the spectrum which translates into higher prices